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SA

C. DUKES SCOTT
EXECUTIVE DIRECTOR

P.O. Box 11263
Columbia, S.C. 29211



Phone: (803) 737-0800
Fax: (803) 737-0801

DAN F. ARNETT
CHIEF OF STAFF

September 1, 2005

VIA HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

RECEIVED
2005 SEP -1 PM 2:30
SC PUBLIC SERVICE
COMMISSION

Re: Notice of Election of Piedmont Natural Gas Company, Inc. for
Application of the Natural Gas Rate Stabilization Act to Its Rates and
Charges
Docket No. 2005-125-G

Dear Mr. Terreni:

Enclosed for filing please find the original and fifteen (15) copies of the Office of Regulatory Staff's Review of Piedmont Natural Gas Company, Inc.'s Monitoring Report filed pursuant to the Natural Gas Rate Stabilization Act. Please date stamp the one extra copy for our office and return it with our courier.

By copy of this letter, I am serving the necessary parties. Thank you for your assistance and please let me know if you have any questions.

Sincerely,

Benjamin P. Mustian

cc: James H. Jeffries, Esquire
Scott Elliott, Esquire
David R. Carpenter

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2005-125-G

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IN RE:)
Notice of Election of Piedmont Natural)
Gas Company, Inc. for Application)
Of the Natural Gas Rate Stabilization)
Act to its Rates and Charges)
_____)

CERTIFICATE OF SERVICE

This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **OFFICE OF REGULATORY STAFF'S REPORT** in the above-referenced matter to the person(s) named below as addressed and shown below:

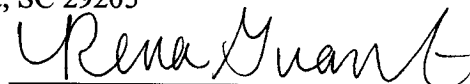
VIA ELECTRONIC MAIL AND FED EX PRIORITY OVERNIGHT

David Carpenter, Director of Rates
Piedmont Natural Gas Company, Inc.
Post Office Box 33068
Charlotte, NC 28233
david.carpenter@piedmontng.com

James H. Jeffries, IV
Moore & Van Allen, PLLC
100 North Tryon Street, Ste. 4700
Charlotte, NC 28202
jimjeffries@mvlaw.com

VIA U.S. MAIL

Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205



Rena Grant

September 1, 2005
Columbia, South Carolina

C. DUKES SCOTT
EXECUTIVE DIRECTOR

P.O. Box 11263
Columbia, S.C. 29211



Phone: (803) 737-0800
Fax: (803) 737-0801

DAN E. ARNETT
CHIEF OF STAFF

September 1, 2005

VIA ELECTRONIC MAIL AND HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

VIA ELECTRONIC MAIL AND OVERNIGHT MAIL

Mr. David R. Carpenter
Director – Rates
Piedmont Natural Gas Company, Inc.
1915 Rexford Road
Charlotte, NC 29211

Re: Report of Office of Regulatory Staff Review of Piedmont Natural Gas Company, Inc.'s Monitoring Report Under **CHAPTER 5, TITLE 58 CODE OF LAWS OF SOUTH CAROLINA, ARTICLE 4** ("the Natural Gas Rate Stabilization Act" or "the Act") for the Twelve-Month Period Ending March 31, 2005

Docket No. 2005-125-G

Gentlemen:

The Office of Regulatory Staff (hereafter "ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq., conducted a review of Piedmont Natural Gas Company, Inc.'s (hereafter "Piedmont" or "the Company") Monitoring Report for the twelve-month period ending March 31, 2005. Said review was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2005, Quarterly Report a Rate of Return and Return on Equity of 9.26% and 10.75%, respectively. The Company's calculation of additional revenue

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required to restore Return on Equity to the 12.6% level authorized in its most recent rate case (Order No. 2002-761 issued in Docket No. 2002-63-G on November 1, 2002) was an additional \$4,672,048 comprised of a \$3,235,276 Margin Increase accompanied by a \$1,436,772 adjustment for Demand Cost Under-Recovery.

Based upon its review, the Office of Regulatory Staff is proposing certain adjustments (see Schedule 2) to reported amounts to bring the report into conformance with Section 58-5-430 and Section 58-5-440 of the Act. Additionally, the Company has requested that certain demand reservation fees charged by one of its suppliers, heretofore included in Demand Cost Under-Recovery, be reclassified (see Schedule 4) to Commodity Cost to more accurately reflect the nature of these charges. The Office of Regulatory staff agrees that this reclassification will result in a more accurate calculation of the resulting Demand Cost Over-Recovery.

As a result of the foregoing adjustments, the Office of Regulatory Staff calculated the Company's Rate of Return and Return on Equity as 9.47% and 11.12%, respectively. Therefore, in accordance with the guidelines of the Act, the Company is entitled to an increase in rates sufficient to achieve a Return on Equity equaling 12.6% (authorized in their most recent rate case). Accordingly, ORS recommends that the Company be authorized a net increase to revenues of \$1,387,964. This increase is comprised of a recommended margin increase of \$2,595,691 reduced by a Demand Cost Over-Recovery of \$1,207,162. After the proposed increase, the Company's Rate of Return and Return on Equity will be 10.34% and 12.6%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	Rates of Return	
				Rate Base	Common Equity
11/07/95	95-715-G	\$ 8,827,414	\$7,807,207	10.77%	12.50%
11/01/02	2002-63-G	\$15,336,891	\$8,381,220	10.39%	12.60%

The following is a description of Schedules prepared by ORS as a result of its review of the Company's filing:

Schedule 1 presents the Company's Operating Experience, Rate Base and Rates of Return for the year ended March 31, 2005, and the accounting and pro forma adjustments which are necessary to correct or normalize the Company's operations both before and after the effect of the requested increase. Utilizing a rate base of \$184,211,771 and per book income of \$16,234,990, ORS computed a Rate of Return on per book operations of 8.81%. Accounting and pro forma adjustments increased Operating Income to \$17,456,913 and increased rate base to \$184,255,587. The Return on Equity computed by ORS after accounting and pro forma adjustment was 11.12%.

After the adjustment for the proposed margin increase of \$3,235,276 and adjustments for a decrease for Demand Cost Over-Recovery of \$1,207,162, operating income increased to \$19,450,237 while rate base remained at \$184,255,587. The Rate of Return on rate base computed by the ORS after the adjustment for the proposed increase is 10.56%. The Return on Common Equity is 12.96%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

Schedule 3 presents the calculation of the weighted average cost of capital used by the Company in calculating its Return on Equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long term debt and equity according to the respective ratios as computed using the Company's capital structure as of March 31, 2005. The amount of total income for return necessary to cover an embedded cost rate of 7.15% on long term debt is computed to be \$5,455,015. The remainder of the total income for return of \$12,001,898 is income to common equity. Such remainder produced a return of 11.12% on common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments but prior to the requested increase is 9.47%. Such overall cost equals the rate of return on rate base shown on Schedule 1.

After the proposed increase of \$3,235,276 and the Adjustments for Demand Cost Over-Recovery of (\$1,207,162), income available to common equity increases to \$13,995,222 and return on common equity increases to 12.96%. Overall cost of capital as detailed in this exhibit equals 10.56%. Such overall cost of capital equals the rate of return on Schedule 1.

Schedule 4 describes the adjustment proposed by the Company to reclassify a portion of its Demand Cost Under-Recovery to Commodity Cost. During the course of ORS'S audit, the Company entered into a Stipulation with the Public Staff – North Carolina Utilities Commission in the pending North Carolina rate case to reclassify the Hess reservation fees from the fixed cost of gas to commodity costs in order to more accurately reflect the nature of the expense. The Company expects that the reclassification of these costs in North Carolina will be approved and has requested the reclassification of these costs in South Carolina. The commodity costs will be accounted for in the Company's annual PGA.


Schedule 4 shows the adjustments to Sale and Transportation of Gas, Cost of Gas and Operations & Maintenance resulting from this reclassification.

Schedule 5 presents the Company's Operating Experience, Rate Base and Rates of Return for the year ended March 31, 2005, and the accounting and pro forma adjustments which are necessary to correct or normalize the Company's operations both before and after the effect of ORS's proposed increase. After the adjustment for the proposed Margin Increase of \$2,595,126 and adjustments for a decrease in Demand Cost Over-Recovery of \$1,207,162, operating income is calculated to be \$19,058,186 while rate base remained at \$184,255,587. The Rate of Return on rate base computed

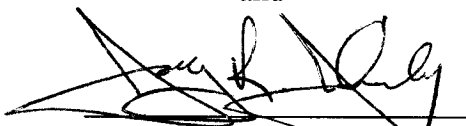
by ORS after the adjustment for the proposed increase is 10.34%. The Return on Common Equity is 12.6%.

Schedule 6 presents the calculation of the weighted average cost of capital used by ORS in calculating the Company's Return on Equity both before and after the proposed increase. The rate base, as shown on Schedule 5, is allocated between long term debt and equity according to the respective ratios as computed using the Company's capital structure as of March 31, 2005. The amount of total income for return necessary to cover an embedded cost rate of 7.15% on long term debt is computed to be \$5,455,015. The remainder of the total income for return of \$13,603,171 is income to common equity. Such remainder will produce a return of 12.6% on common equity after the ORS recommended increase to proposed Margin of \$2,595,126 and a \$1,207,162 reduction to Demand Cost Over-Recovery.

Respectfully submitted by,


Benjamin P. Mustian

- and -


Jay R. Jashinsky

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve Months Ended March 31, 2005
Docket No. 2005-125-G

	Per Regulatory Books	Accounting and Pro Forma Adjustments	After Accounting and Pro Forma Adjustments	Adjustments for Proposed Margin Increase	Adjustments for Demand Cost Over-Recovery	Total After Proposed Increase
Operating Revenues						
Sale and Transportation of Gas	\$ 170,701,129	(1) \$ 22,792,625	(1) \$ 193,493,754	\$ 3,235,276 (10)	** (1,207,162)	\$ 195,521,868
Other Operating Revenues	806,437		806,437			806,437
	<u>171,507,566</u>	<u>22,792,625</u>	<u>194,300,191</u>	<u>3,235,276</u>	<u>(1,207,162)</u>	<u>196,328,305</u>
Operating Expenses						
Cost of Gas	103,854,313	19,685,985	123,540,298		(1,197,263) **	122,343,035
Operations & Maintenance	28,615,595	350,527 (3)	28,966,122	26,529 (11)	(9,899) **	28,982,753
Depreciation	10,330,977	(47,553) (4)	10,283,424			10,283,424
General Taxes	6,975,311	125,737 (5)	7,101,048			7,101,048
State Income Taxes	354,546	599,840 (6)	954,386	160,437 (12)		1,114,823
Federal Income Taxes	5,458,050	865,263 (7)	6,323,313	1,066,908 (13)		7,390,221
Amortization of Investment Tax Credits	(63,416)		(63,416)			(63,416)
	<u>155,525,376</u>	<u>21,579,798</u>	<u>177,105,174</u>	<u>1,253,875</u>	<u>(1,207,162)</u>	<u>177,151,888</u>
Total Operating Expenses						
	<u>15,982,190</u>	<u>1,212,827</u>	<u>17,195,017</u>	<u>1,981,401</u>	<u>-</u>	<u>19,176,418</u>
Net Operating Income						
Interest on Customer Deposits	(66,439)		(66,439)			(66,439)
Amortization of Debt Redemption Premium	(14,535)		(14,535)			(14,535)
Allowance for Funds Used During Construction	214,406		214,406			214,406
Customer Growth	119,368	9,096 (8)	128,464	11,923 (14)		140,387
	<u>16,234,990</u>	<u>1,221,923</u>	<u>17,456,913</u>	<u>1,993,324</u>	<u>-</u>	<u>19,450,237</u>
Net Operating Income for Return						
	<u>\$ 315,778,936</u>	<u>\$ 315,778,936</u>	<u>\$ 315,778,936</u>			<u>\$ 315,778,936</u>
	<u>(114,577,889)</u>	<u>(114,577,889)</u>	<u>(114,577,889)</u>			<u>(114,577,889)</u>
Original Cost Rate Base:						
Plant in Service	201,201,047	-	201,201,047			201,201,047
Accumulated Depreciation	9,756,740		9,756,740			9,756,740
	<u>14,677,342</u>		<u>14,677,342</u>			<u>14,677,342</u>
Net Plant in Service	1,192,764	43,816 (9)	1,236,580			1,236,580
Construction Work in Process	(3,599)		(3,599)			(3,599)
Materials and Supplies	(3,402,319)		(3,402,319)			(3,402,319)
Cash Working Capital	(38,726,708)		(38,726,708)			(38,726,708)
Customers' Advances	(483,496)		(483,496)			(483,496)
Customers' Deposits						
Accumulated Deferred Income Taxes						
Unclaimed Funds						
	<u>\$ 184,211,771</u>	<u>\$ 43,816</u>	<u>\$ 184,255,587</u>			<u>\$ 184,255,587</u>
Original Cost Rate Base:						
	<u>8.81%</u>		<u>9.47%</u>			<u>10.56%</u>
Rate of Return						
	<u>10.75%</u>		<u>11.12%</u>			<u>12.96%</u>
Return on Equity						

Note - Per Book Rate of Return computed per Company based on per book Net Operating Income for Return and Original Cost Rate Base.
 ** See Schedule 4

Piedmont Natural Gas Company
South Carolina Operations
Explanation of Accounting and Pro Forma Adjustments
For the Twelve Months Ended March 31, 2005
Docket No. 2005-125-G

<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
(1) <u>Operating Revenues-Sale and Transportation of Gas</u>		
a. Piedmont proposes to increase revenues to the going-level basis. ORS agrees with this adjustment.	\$ 22,792,625	22,792,625
<u>Total Operating Revenues-Sale and Transportation of Gas</u>	\$ 22,792,625	22,792,625
(2) <u>Cost of Gas</u>		
a. Piedmont proposes to increase the cost of gas to the going-level basis. ORS agrees with this adjustment.	\$ 19,685,985	\$ 19,685,985
<u>Total Cost of Gas</u>	\$ 19,685,985	\$ 19,685,985
(3) <u>Operations and Maintenance Expense</u>		
a. Piedmont proposes to increase payroll costs to the going-level basis. The Company and ORS annualized the actual salaries and wages expense at March 31, 2005. ORS's calculation disallows officer salary increases during the test period in conformance with PSC Order No. 2002-761, November 1, 2002.	\$ 415,934	367,777
b. Piedmont proposes to increase expenses for the Salary and Payroll Investment Plan. The Plan allows participants to defer a portion of their base salary, and the Company matches a portion of the participant's contribution. The Company computed a pro forma amount based on wages and salaries including overtime amounts. ORS adjustment corrects for error in pro forma payroll costs used in the Company's calculation and computes a pro forma amount based on wages and salaries from adjustment 3a excluding officer salary increases. Overtime amounts have also been excluded as the contributions are only made on base salaries.	13,948	(20,651)
d. Piedmont proposes to increase expenses for the effect of annualizing pension costs. The Company calculated its adjustment using an actuarial estimated pension expense of \$9,600,000 dated June 6, 2005. ORS's calculation utilizes the most recent actuarial valuation dated July 2005 of \$8,811,935 which includes an adjustment to the pension expense for the transfer of the NCNG pension plan to Piedmont. Piedmont's purchase of NCNG included the pension plan assets for certain NCNG division employees.	372,631	279,833
e. Piedmont proposes to increase expenses for the provision for uncollectible accounts to reflect actual net write-offs over a three year period. The provision is based on a 3-year average ratio of accounts charged off per PSC Order No. 2002-761, November 1, 2002. The Company computed the ratio to equal 0.62563%. ORS's adjustment corrects for an error in the Company's computation. The ORS adjustment is calculated multiplying the Operating Revenues After Accounting and Pro Forma Adjustments by 0.52%.	490,655	428,021

**Piedmont Natural Gas Company
South Carolina Operations
Explanation of Accounting and Pro Forma Adjustments
For the Twelve Months Ended March 31, 2005
Docket No. 2005-125-G**

Description	Per Piedmont	Per ORS
f. Piedmont proposes to decrease expenses for allocations to non-utility activities. ORS agrees with this adjustment.	(45,437)	(45,437)
g. Piedmont proposes to decrease expenses for the Long-Term Incentive Plan pursuant to PSC Order No. 2002-761, November 1, 2002. ORS agrees with this adjustment.	(104,453)	(104,453)
h. Piedmont proposes to decrease expenses for the Short-Term Incentive plan. ORS agrees with this adjustment.	(39,343)	(39,343)
i. Piedmont proposes to decrease expenses for the MVP Incentive Plan. ORS agrees with this adjustment.	(134,964)	(134,964)
j. Piedmont proposes to increase expenses for group insurance for projected costs increases. ORS agrees with this adjustment.	122,204	122,204
k. Piedmont proposes to decrease expenses for directors' retirement benefits. ORS agrees with this adjustment.	(343,956)	(343,956)
l. Piedmont proposes to increase expenses for the Supplemental Executive Benefit Plan. ORS agrees with this adjustment.	83,152	83,152
m. Piedmont proposes to increase expenses for the South Carolina License fee. During the audit, ORS and the Company discovered that the license fee was included in the computation of adjustment #5c. ORS and the Company agree that this adjustment should be \$0.	189,439	-
n. Piedmont proposes to decrease expenses for non-allowables for ratemaking purposes. ORS agrees with this adjustment.	(130,412)	(130,412)
o. There are two new incentive plans that were not in existence during the 2002 gas rate case. A Short-Term Incentive Plan for participants in certain job classifications and an MVP Incentive Plan that all employees are eligible to participate in. These plans provide incentive bonuses to be paid on achieving target Earnings Per Share and operational improvements which benefit ratepayers and shareholders alike. ORS proposes to eliminate one-half of the costs related to the officers' portion of the Short-Term and MVP Incentive Plans.	-	(123,101)
p. ORS proposes to amortize IBM transition charges over the life of the computer maintenance contract with IBM. The Company entered into a 7-year computer maintenance contract with IBM during the test period and incurred expenses for the transition from its prior vendor to IBM that were charged to the test period O&M expenses. These expenses should be capitalized and amortized over the 7-year life of the contract. The unamortized balance of these costs should be deferred and treated as a regulatory asset pending recovery through the Company's rates.	-	(48,143)
q. ORS proposes to increase O&M expenses for the cost of the ORS auditor allowed under the Natural Gas Rate Stabilization Act pursuant to Section 58-5-470.	-	60,000
<u>Total Operations and Maintenance Expense</u>	\$ 889,398	\$ 350,527

Piedmont Natural Gas Company
South Carolina Operations
Explanation of Accounting and Pro Forma Adjustments
For the Twelve Months Ended March 31, 2005
Docket No. 2005-125-G

<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
(4) Depreciation Expense		
a. Piedmont proposes to decrease depreciation expense to the going-level basis using recently completed depreciation study rates. ORS agrees with this adjustment.	\$ (47,553)	\$ (47,553)
<u>Total Depreciation Expense</u>	<u>(47,553)</u>	<u>(47,553)</u>
(5) General Taxes		
a. Piedmont proposes to increase property taxes to the going-level basis. The Company computed its adjustment based on estimates of property tax values. ORS calculated its adjustment based on the actual property tax values set by the county in January 2005.	\$ 144,487	\$ 117,282
b. Piedmont proposes to increase payroll taxes to the going-level basis. The Company computed its adjustment based on pro forma wages and salaries computed in adjustment #3a and the payroll tax expense on the Long-Term, Short-Term, and MVP Incentive Plans. ORS calculated the adjustment based on the pro forma payroll tax expense after disallowance of officer salary increases and the payroll taxes on one-half of the officer portion of the incentive plan expenses.	83,250	7,722
c. Piedmont proposes to decrease franchise taxes to the going-level basis. ORS's adjustment is based on net operating revenues after accounting and pro forma adjustments.	(81,937)	(42,521)
d. Piedmont proposes to increase other taxes to the going-level basis. ORS's adjustment includes a correction for an error in allocation of taxes between North Carolina and South Carolina.	62,641	43,254
<u>Total General Taxes</u>	<u>\$ 208,441</u>	<u>\$ 125,737</u>
(6) State Income Taxes		
a. Piedmont proposes to increase state income taxes (rate of 5%) following a computation after accounting and proforma adjustments. ORS has recalculated state income taxes (rate of 5%) utilizing ORS adjustments to O&M expenses.	\$ 568,661	\$ 599,840
<u>Total State Income Taxes</u>	<u>\$ 568,661</u>	<u>\$ 599,840</u>
(7) Federal Income Taxes		
a. Piedmont proposes to increase federal income taxes (rate of 35%) following a computation after accounting and proforma adjustments. ORS has recalculated federal income taxes (rate of 35%) utilizing ORS adjustments to O&M expenses.	\$ 657,926	\$ 865,263
<u>Total Federal Income Taxes</u>	<u>\$ 657,926</u>	<u>\$ 865,263</u>

**Piedmont Natural Gas Company
South Carolina Operations
Explanation of Accounting and Pro Forma Adjustments
For the Twelve Months Ended March 31, 2005
Docket No. 2005-125-G**

<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
(8) <u>Customer Growth</u>		
a. Piedmont proposes to increase net operating income to reflect anticipated customer growth (rate of 0.75%) following the adjustments to operating revenues and expenses. ORS has recalculated this adjustment utilizing ORS adjustments to O&M expenses.	\$ 6,223	\$ 9,096
<u>Total Customer Growth</u>	\$ 6,223	\$ 9,096
(9) <u>Cash Working Capital</u>		
a. Piedmont proposes to increase cash working capital following the pro forma adjustments to operations and maintenance expenses (rate of 12.5%). ORS adjustment is based on ORS adjustments to O&M expenses (rate of 12.5%).	\$ 111,175	\$ 43,816
<u>Total Cash Working Capital</u>	\$ 111,175	\$ 43,816
(10) <u>Operating Revenues-Sale and Transportation of Gas</u>		
a. Piedmont proposes to increase revenues for the sale and transportation of gas for proposed margin increase before demand cost under-recovery.	\$ 3,235,276	\$ 3,235,276
<u>Total Operating Revenues-Sale and Transportation of Gas</u>	\$ 3,235,276	\$ 3,235,276
(11) <u>Operations and Maintenance Expense</u>		
a. Piedmont proposes to increase the provision for uncollectible accounts (rate of 0.62563%) following the adjustments to operating revenues. ORS has recomputed this adjustment at the rate of 0.52% as calculated in adjustment #3e.	\$ 20,241	\$ 16,823
b. Piedmont proposes to increase the utility license fee (rate of 0.30%) following the adjustments to operating revenues. ORS has recomputed this adjustment based on operating revenues per adjustment #10a and proposes to increase this expense by \$61.	9,645	9,706
<u>Total Operations and Maintenance Expense</u>	\$ 29,886	\$ 26,529
(12) <u>State Income Taxes</u>		
a. Piedmont proposes to increase state income taxes (rate of 5%) following the adjustments to operating revenues. ORS has recomputed the state income taxes (rate of 5%) following ORS adjustments to O&M expenses in adjustments #11a and 11b.	\$ 160,270	\$ 160,437
<u>Total State Income Taxes</u>	\$ 160,270	\$ 160,437

**Piedmont Natural Gas Company
South Carolina Operations
Explanation of Accounting and Pro Forma Adjustments
For the Twelve Months Ended March 31, 2005
Docket No. 2005-125-G**

<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
(13) Federal Income Taxes		
a. Piedmont proposes to increase federal income taxes (rate of 35%) following the adjustments to operating revenues. ORS has recomputed the federal income taxes (rate of 35%) following ORS adjustments to O&M expenses in adjustments #11a and 11b.	\$ 1,065,792	\$ 1,066,908
<u>Total Federal Income Taxes</u>	<u>\$ 1,065,792</u>	<u>\$ 1,066,908</u>
(14) Customer Growth		
a. Piedmont proposes to increase net operating income to reflect anticipated customer growth (rate of 0.75%) following the adjustments to operating revenues and expenses. ORS has recalculated this adjustment following adjustments to O&M expenses and income taxes as explained above.	\$ 14,845	\$ 11,923
<u>Total Customer Growth</u>	<u>\$ 14,845</u>	<u>\$ 11,923</u>
(15) Operating Revenues-Sale and Transportation of Gas		
a. Piedmont proposes to increase the revenue requirement for the sale and transportation of gas associated with the demand cost under-recovery. During the audit the Company reclassified one supplier's reservation fees from the cost of gas to commodity cost which will be accounted for in the Company's annual PGA. The Company and ORS propose a decrease to the revenue requirement as a result of this reclassification.	\$ 1,436,772	\$ (1,207,162)
<u>Total Operating Revenues-Sale and Transportation of Gas</u>	<u>\$ 1,436,772</u>	<u>\$ (1,207,162)</u>
(16) Cost of Gas		
a. Piedmont proposes to increase the cost of gas for the demand cost under-recovery using a demand cost allocation factor of 16.16% (based upon most recent design day study). During the audit the Company reclassified one supplier's reservation fees from the cost of gas to commodity cost which will be accounted for in the Company's annual PGA. The Company and ORS propose to decrease the cost of gas as a result of this reclassification.	\$ 1,423,621	\$ (1,197,263)
<u>Total Cost of Gas</u>	<u>\$ 1,423,621</u>	<u>\$ (1,197,263)</u>

**Piedmont Natural Gas Company
South Carolina Operations
Explanation of Accounting and Pro Forma Adjustments
For the Twelve Months Ended March 31, 2005
Docket No. 2005-125-G**

<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
(17) <u>Operations and Maintenance Expense</u>		
a. Piedmont proposes to increase the provision for uncollectible accounts (rate of 0.62563%) following the adjustments to operating revenues. ORS has recalculated this adjustment utilizing the adjustment to operating revenues in adjustment #16a and the rate of 0.52%.	\$ 8,907	\$ (6,277)
b. Piedmont proposes to increase the utility license fee (rate of 0.30%) following the adjustments to operating revenues. ORS has recalculated this adjustment utilizing the adjustments to operating revenues in adjustment #16a and the actual utility license fee rate of 0.30%.	<u>4,244</u>	<u>(3,621)</u>
<u>Total Operations and Maintenance Expense</u>	\$ <u>13,151</u>	\$ <u>(9,899)</u>

Piedmont Natural Gas Company
 South Carolina Operations
 Weighted Cost of Capital
 As of March 31, 2005
 Docket No. 2005-125-G

Description	Capital Structure	Ratio	Regulatory Per Books			As Adjusted			After Proposed Increase		
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Income For Return
Long-Term Debt	\$ 654,921,960	41.41%	76,275,774	7.15%	2.96%	\$ 5,453,718	\$ 76,293,917	7.15%	2.96%	\$ 5,455,015	\$ 5,455,015
Common Equity	926,764,173	58.59%	107,935,997	10.75%	6.30%	10,761,272	107,961,670	11.12%	6.51%	12,001,898	13,995,222
Totals	\$ 1,581,686,133	100.00%	\$ 184,211,771		9.26%	\$ 16,234,990	\$ 184,255,587		9.47%	\$ 17,456,913	\$ 19,450,237

**Piedmont Natural Gas Company
South Carolina Operations
Adjustments for Demand Cost Under-Recovery
For the Twelve Months Ended March 31, 2005
Docket No. 2005-125-G**

Sale and Transportation of Gas:

Sale and Transportation of Gas Per Quarterly Report	\$ 1,436,772 (15)
Less: Adjustment to Revenue Associated with Demand Cost Over-Recovery	<u>(2,643,934)</u>
Sale and Transportation of Gas As Revised by The Company	<u>\$ (1,207,162)</u>

Cost of Gas:

Under-Collection of Cost of Gas - Demand Cost Per Quarterly Report	\$ 1,423,621 (16)
Less: Adjustment to Under-Collection of Cost of Gas - Demand Cost	<u>(2,620,884)</u>
Over-Collection of Cost of Gas - Demand Cost As Revised By The Company	<u>\$ (1,197,263)</u>

Operations & Maintenance:

Uncollectible Accounts Per Quarterly Report	\$ 8,907 (17a)
Less: Adjustment to Uncollectible Accounts Due to Change in Revenues	<u>(15,184)</u>
Uncollectible Accounts (.52%) After Change to Revenues	<u>\$ (6,277)</u>
Utility License Fee Per Quarterly Report	\$ 4,244 (17b)
Less: Adjustment to Utility License Fee Due to Change in Revenues	<u>(7,865)</u>
Utility License Fee After Change to Revenues	<u>\$ (3,621)</u>
Adjustment to O&M Expense After Change to Revenues	<u>\$ (9,899) (17)</u>

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve Months Ended March 31, 2005
Docket No. 2005-125-G

	Per Regulatory Books	Accounting and Pro Forma Adjustments	After Accounting and Pro Forma Adjustments	Adjustments for Proposed Margin Increase	Adjustments for Demand Cost Over-Recovery	Total After Proposed Increase
Operating Revenues						
Sale and Transportation of Gas	\$ 170,701,129	(1) \$ 22,792,625	\$ 193,493,754	\$ 2,595,126	\$ (1,207,162)	\$ 194,881,718
Other Operating Revenues	806,437		806,437			806,437
	<u>171,507,566</u>	<u>22,792,625</u>	<u>194,300,191</u>	<u>2,595,126</u>	<u>(1,207,162)</u>	<u>195,688,155</u>
Operating Expenses						
Cost of Gas	103,854,313	(2) 19,685,985	123,540,298			122,343,035
Operations & Maintenance	28,615,595	(3) 350,527	28,966,122	21,280	(1,197,263)	28,977,503
Depreciation	10,330,977	(4) (47,553)	10,283,424		(9,899)	10,283,424
General Taxes	6,975,311	(5) 125,737	7,101,048			7,101,048
State Income Taxes	354,546	(6) 599,840	954,386	128,692		1,083,078
Federal Income Taxes	5,458,050	(7) 865,263	6,323,313	855,804		7,179,117
Amortization of Investment Tax Credits	(63,416)		(63,416)			(63,416)
	<u>155,525,376</u>	<u>21,579,798</u>	<u>177,105,174</u>	<u>1,005,776</u>	<u>(1,207,162)</u>	<u>176,903,789</u>
Total Operating Expenses						
	<u>15,982,190</u>	<u>1,212,827</u>	<u>17,195,017</u>	<u>1,589,350</u>	<u>-</u>	<u>18,784,367</u>
Net Operating Income						
Interest on Customer Deposits	(66,439)		(66,439)			(66,439)
Amortization of Debt Redemption Premium	(14,535)		(14,535)			(14,535)
Allowance for Funds Used During Construction	214,406		214,406			214,406
Customer Growth	119,368	(8) 9,096	128,464	11,923		140,387
	<u>16,234,990</u>	<u>1,221,923</u>	<u>17,456,913</u>	<u>1,601,273</u>	<u>-</u>	<u>19,058,186</u>
Net Operating Income for Return						
	<u>\$ 315,778,936</u>	<u>\$ (114,577,889)</u>	<u>\$ 315,778,936</u>	<u>\$ (114,577,889)</u>	<u>\$ -</u>	<u>\$ 315,778,936</u>
Original Cost Rate Base:						
Plant in Service	201,201,047		201,201,047			201,201,047
Accumulated Depreciation	9,756,740		9,756,740			9,756,740
Net Plant in Service	14,677,342		14,677,342			14,677,342
Construction Work in Process	1,192,764	(9) 43,816	1,236,580			1,236,580
Materials and Supplies	(3,599)		(3,599)			(3,599)
Cash Working Capital	(3,402,319)		(3,402,319)			(3,402,319)
Customers' Advances	(38,726,708)		(38,726,708)			(38,726,708)
Customers' Deposits	(483,496)		(483,496)			(483,496)
Accumulated Deferred Income Taxes						
Unclaimed Funds						
	<u>\$ 184,211,771</u>	<u>\$ 43,816</u>	<u>\$ 184,255,587</u>	<u>\$ 184,255,587</u>	<u>\$ -</u>	<u>\$ 184,255,587</u>
Original Cost Rate Base:						
	<u>8.81%</u>		<u>9.47%</u>			<u>10.34%</u>
Rate of Return						
	<u>10.75%</u>		<u>11.12%</u>			<u>12.60%</u>
Return on Equity						

Note - Per Book Rate of Return computed per Company based on per book Net Operating Income for Return and Original Cost Rate Base.

** See Schedule 4

Piedmont Natural Gas Company
South Carolina Operations
Weighted Cost of Capital
As of March 31, 2005
Docket No. 2005-125-G

Description	Capital Structure	Ratio	Regulatory Per Books			As Adjusted			After Proposed Increase		
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Income For Return
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Totals	\$ 1,581,686,133	100.00%	\$ 184,211,771		9.26%	\$ 16,234,990	\$ 184,255,587		9.47%	\$ 17,456,913	\$ 19,058,186